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C O N F I D E N T I A L PRAGUE 000313

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TAGS: [ENRG](#) [ECON](#) [EFIN](#) [ETRD](#) [PGOV](#) [CZ](#) [RU](#)  
SUBJECT: CZECH AMBASSADOR FOR ENERGY SECURITY'S TRIP TO  
WASHINGTON

REF: A. PRAGUE 206  
[1](#)B. STATE 09854  
[1](#)C. PRAGUE 77  
[1](#)D. PRAGUE 33  
[1](#)E. 06 PRAGUE 1402

Classified By: Political-Economic Counselor Michael J. Dodman  
for reasons 1.4 B & D

[1](#)1. (C) SUMMARY AND COMMENT: This is Vaclav Bartuska's first trip to the U.S. in his capacity as Czech Ambassador-at-Large for Energy Security. He was appointed to this position last winter because the MFA saw the need for closer scrutiny and high level interagency coordination to develop a coherent energy policy that reflects the country's national security interests. Although a political-scientist by training, Bartuska has grown into his job and become quite knowledgeable on the energy security issue. He has traveled extensively in the region to engage in direct dialogue with key government officials and commercial decision makers in the Visegrad countries and Germany. Bartuska is also a former dissident and a specialist on Russia. END SUMMARY AND COMMENT.

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TRIP TO WASHINGTON  
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[1](#)2. (C/NF) Econoff met March 22 with Czech Ambassador-at-Large for Energy Security Vaclav Bartuska to preview his visit to Washington the week of March 26. The purpose of his trip is to lay the groundwork on energy security issues for the April 20 visit by Foreign Minister Schwarzenberg to Washington. Specifically, Bartuska's mission is to determine how much the USG is willing to get involved to ward off Russian "energy imperialism" in this region, including in the current bid by Lukoil to purchase ConocoPhillip's minority stake in the Czech Oil Refinery (Ceska Rafinerska -- CRC) (ref B). Bartuska believes the USG has enough economic leverage with Russia to have influence in the outcome of the encroaching Russian interests in the European energy sector, and that it is a matter of political will.

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NEXT STEPS ON CZECH ENERGY SECURITY RECOMMENDATIONS  
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[1](#)3. (C/NF) Bartuska informed that the Czech Energy Security Working Group of the Czech National Security Council met March 22 to discuss revisions to the Czech Energy Concept Paper submitted to the EU. He said that the Ministry of

Industry and Trade (MPO) was unwilling to redraft the paper because they believe doing so would open up a Pandora's Box for the Greens to hijack the paper. (NOTE: The Greens do not want any additional nuclear power plants built in the Czech Republic but others in the coalition government do not see how the Czech Republic can fulfill its future domestic energy needs without it. END NOTE) Arguing that the content does not need re-drafting since it was last done in 2004, MPO simply wants to make some cosmetic changes. Bartuska is fighting this, as the current content of the paper is "fiction," based on what the Czech Republic has told the EU it will strive for as opposed to what has been done and can be done in reality.

14. (C) Bartuska must submit by June 2007 an assessment of priority issues for Czech energy security, which he previewed with econoff. He has decided to limit the focus to one priority issue per energy source -- electricity, gas, oil, and nuclear fuel.

-- On electricity, the focus will be on whether the Czech Republic will have enough electricity to export and/or be self-sufficient starting 2015. The validity of this claim will dictate what government policy will be on nuclear energy and coal mining policies.

-- On gas, the priority is the need to reassess what the European gas network will look like in 15 years. Bartuska believes that Russia will move forward with its North Stream and Blue Stream pipeline projects no matter what, and that the Czech Republic will likely lose its protected status as a transit country for gas deliveries to Germany. This will not only mean decrease in revenue for the Czech government and decreased in the value of Czech RWE Transgas pipelines, but the Czech Republic will also fall lower on the "pecking

order" for gas delivery from Russia.

-- On oil, the priority issue is whether Russia has enough oil to export in 2020. Bartuska believes that Russia has over-committed itself in terms of future oil contracts.

-- On nuclear fuel, Bartuska informed that CEZ was seeking to move up the calendar on when it will switch from the current supplier Westinghouse to Russian Tvel by one year. If successful, the Czech Republic would become 100% dependent on Russia for nuclear fuel starting in 2009 rather than 2010, which is when the current contract with Westinghouse expires. Nuclear fuel currently supplied 36% of Czech electricity.

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REGIONAL PIPELINE DEVELOPMENTS  
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15. (C/NF) SLOVAKIA'S TRANSPETROL: Bartuska confirmed that Czech Minister of Industry and Trade Martin Riman met with his Slovak counterpart on March 15, accompanied by the Czech state-owned oil pipeline company MERO. MERO made a pitch to buy the 49% share of Transpetrol with 100% managerial rights. Bartuska said that MERO fully realizes that Russia is likely to get this share, but wanted to try anyways based on its historical ties and privileged relationship with Transpetrol (NOTE: MERO and Transpetrol were one company before Czechoslovakia split up. END NOTE) and because it would make commercial sense for MERO.

16. (C/NF) HUNGARY'S DECISION ON BLUE STREAM: Bartuska said he was not/not surprised that Hungary decided to go with Russia's Blue Stream gas pipeline project vice the EU's Nabucco pipeline. Bartuska believes Nabucco is "dead" since a pipeline without a viable source is meaningless. His view is based on the belief that the Azeris do not have sufficient supplies of gas, Turkmenistan is firmly under Russia's hands, and while Iran has vast supplies, it remains untapped and need much investment to do so.

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WHY IS GOVERNMENT SELLING MORE OF CEZ?  
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17. (C/NF) On March 20, the government approved the sale of approximately 7% of its 67% share in the Czech electricity monopoly and cash cow CEZ by floating it on the Czech stock market, which will bring the government share to 60.61%. The Ministry of Finance expects the share will bring over CZK 35 billion. All government ministers voted in favor with the exception of the Greens, who abstained. On March 23, the media reported that CEZ was seeking to float only "bulk shares" in hopes to allow CEZ itself to buy the government shares. One media source questioned the wisdom of this move given that CEZ has sufficient dividends available for the government to tap to plug the deficit. The same source speculated that the answer was in the money trail and alluded to government corruption. Another element of these developments at CEZ is that in early March, CEZ management proposed changes to the status to limit the power of the supervisory board (and strengthen the power of the management board), which the government has thus far resisted.  
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